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INTELLIGENCE MEMORANDUM

THE SITUATION IN THE PHILIPPINES

DIRECTORATE OF INTELLIGENCE

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CENTRAL INTELLIGENCE AGENCY
Directorate of Intelligence
12 October 1966

INTELLIGENCE MEMORANDUM

The Situation in the Philippines

SUMMARY

The Philippines enjoys both political and economic stability and is free of serious subversion or insurgency. However, President Ferdinand Marcos faces important social and economic problems and has sought and obtained considerable US assistance to meet them. With a foreign policy traditionally oriented toward the free world, the government has generally supported US policies toward the Communist world. Relations between the US and the Philippines are basically good but are strained occasionally by rising Philippine nationalism and differences over military and commercial arrangements.

NOTE: This is one of a series of memoranda produced by CIA on those countries to be visited by President Johnson. It was prepared by the Office of Current Intelligence and coordinated with the Office of National Estimates and the Office of Research and Reports.

The Political Situation

1. The political situation in the Philippines is stable, and no major economic crises are apparent. Democratic processes are the accepted method of achieving power, and there is no severe subversive or insurgent problem. President Marcos, whose administration took office on 30 December 1965, is an energetic and skillful administrator and an astute politician. However, he has made little progress in mitigating the serious socio-economic problems that plague the country.

2. Discontent in the rural areas is engendered by an inequitable and feudalistic land tenure system. The problem is compounded by a low level of agricultural productivity. Unemployment, low wages, and an upward trend in living costs are stimulating discontent in the cities. Past government efforts to meet these basic problems have been ineffective, largely because both major political parties represent the conservative landed and commercial interests.

3. Large-scale smuggling and corruption have been a serious drain on the economy, costing the government some \$100-200 million in annual revenues as well as weakening public respect for democratic government and law and order. Widespread crime and violence have grown to serious dimensions.

4. Although President Marcos has expressed a determination to reduce smuggling and corruption, effect land reform, and increase agricultural production, legislative attention since his assumption of office has been primarily devoted to passing the Vietnam aid bill. Focus has recently turned to reform and development programs, but the administration still faces a major problem in that Marcos' Nacionalista Party has only a slim majority in the Senate and is in the minority in the House of Representatives.

Internal Security and Defense Posture

5. There has been no major threat to law and order since the Huks were suppressed by Magsaysay

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6. No serious external threat to the Philippines is evident at this time. Chinese Communist subversive activity has been slight, and the former threat from Indonesia appears to have been reduced by the political upheaval there. If such a threat should develop, the Philippines would be totally dependent on US assistance. The effectiveness of the Philippine armed forces is limited by an inadequate budget, a structural orientation toward a World War II type of threat rather than insurgency, and poor operational integration of units. The Philippines is a charter member of SEATO, but it has very little capability to contribute to joint military efforts in Southeast Asia.

Foreign Relations

7. President Marcos has continued the free world orientation of Philippine foreign policy. Thus far, the Philippine Government has not established political or economic relations with any Communist country, though it has recently considered purchasing rice from Communist China. Manila has never recognized the Soviet Union. Filipinos in general have a friendly attitude toward the US, but in recent years there have been increasing expressions of nationalism, especially among students, intellectuals, and influential elements of the press, which often are anti-American in tone. Marcos is sensitive to this nationalistic trend, and although

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he has emphasized the close alliance with the US, he does not hesitate to criticize the US for actions he deems in conflict with Philippine interests.

8. A firm supporter of US policy in Southeast Asia, Marcos staked his prestige on the passage of a bill that authorized the sending of 2,000 combat engineers to South Vietnam. [REDACTED]

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9. In recognition of his support of US policies, Marcos has expected sizable US military and economic assistance. During his recent visit to the US, Marcos sought and obtained extensive US aid for his four-year development program, including equipment for five engineer construction battalions to be used in civic action programs, increased defense support, and commitments of expanded private investment. Most of the long-standing issues between the US and the Philippines, particularly in regard to bases and bilateral economic agreements, have been adjusted. In the recent Rusk-Ramos agreement, the US agreed to reduce the term of the military bases agreement from 99 to 25 years. Recent legislation by the US Congress provides substantially increased benefits for Philippine war veterans, though the issue remains an open one. Although Marcos' visit has been generally hailed as a success, certain elements of the Philippine press and Congress are reserving judgment pending visible results.

10. Some differences still remain regarding the Laurel-Langley agreement, which gives US citizens rights equal to Filipinos in establishing commercial enterprises and exploiting national resources. This irritant was reduced, however, when the US announced in 1965 that it would not seek renewal of parity rights after the lapse of the treaty in 1974. A more serious problem involves the Retail Trade Nationalization Law requiring all retail enterprises

to be "wholly owned" by Filipinos and/or US citizens. The law was originally aimed at the Chinese, but it also rules out most US corporations with publicly held stock. Some 90 US firms with investments totaling over \$250 million are involved.

11. Because of its close ties with the US, the Philippines has done little to expand relations with other countries. However, Marcos is now showing more interest in an active role in regional affairs. Apart from its membership in SEATO, the Philippines joined with Thailand and Malaya in 1961 to form the Association of Southeast Asia. Recently Marcos has expressed an interest in an Asian forum for settling regional problems. Although his view of the shape and role of such a forum is still undefined, it is unlikely to involve anything adverse to US interests.

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